

Message Text

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TO SECSTATE WASHDC 5278

TREASURY DEPT WASHDC

AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

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USMISSION OECD PARIS

UNCLAS LONDON 14147

E.O. 11652: N/A

TAGS: EFIN. UK

SUBJECT: LABOR PARTY EXECUTIVE CALLS FOR NATIONALIZATION
OF BANKS AND INSURANCE COMPANIES

1. IN PREPARATION FOR THE LABOR PARTY CONFERENCE LATER THIS MONTH, THE NATIONAL EXECUTIVE COUNCIL HAS ISSUED A POLICY STATEMENT TO BE SUBMITTED FOR THE APPROVAL OF THE CONFERENCE CALLING FOR NATIONALIZATION OF THE FOUR LARGEST UK CLEARING BANKS AND SEVEN LARGEST INSURANCE COMPANIES. IT WOULD ALSO NATIONALIZE AN UNSPECIFIED MERCHANT BANK. AN INVESTMENT RESERVE FUND WOULD BE SET UP TO DIRECT FUNDS TO PRODUCTIVE INVESTMENT. THIS WOULD BE SUPERVISED BY A REFORMED BANK OF ENGLAND WHOSE RESOURCES WOULD SUPPORT THE GOVERNMENT'S INDUSTRIAL STRATEGY. THE BANK COULD PLAY AN INTERMEDIARY ROLE, CHANNELING FUNDS INVESTED IN ITS OBLIGATIONS TO INDUSTRY. THE STOCK MARKET IS ALSO CRITICIZED AS INEFFECTIVE IN RAISING RISK

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CAPITAL AND AS A MARKET FOR EXISTING SECURITIES. THE

OVERALL AIM OF THE PROPOSALS IS GREATER CONTROL OVER THE CHANNELS OF FUNDS AND THEIR ULTIMATE USE.

2. SIMILAR PROPOSALS HAVE BEEN MADE IN THE PAST. THE CURRENT PROPOSAL WAS DRAWN UP BY THE NATIONAL EXECUTIVE COUNCIL'S HOME POLICY COMMITTEE UNDER THE CHAIRMANSHIP OF ANTHONY BENN, SECRETARY OF ENERGY, WITH THE HELP OF THE PARTY'S BANKING AND INSURANCE STUDY GROUP HEADED BY MR. IAN MIKARDO AND GEOFFREY BUSH, HEAD OF LABOR PARTY RESEARCH AT TRANSPORT HOUSE. THESE THREE GENTLEMEN ARE ON THE LEFT OF THE PARTY.

3. THE DOCUMENT ITSELF IS A PART OF THE PARTY'S PROGRAM AND WILL BE VOTED ON AT BLACKPOOL. IF IT GETS THE REQUIRED 2/3 MAJORITY. IT WILL BECOME OFFICIAL PARTY POLICY. THE NEXT IMPORTANT STAGE WILL BE TO SEE IF THE DOCUMENT IS INCLUDED IN THE PARTY'S MANIFESTO. LABOR PARTY MODERATES' INCLUDING SENIOR MINISTERS. CAN BE EXPECTED TO OPPOSE THE ACTION, AND ARGUE FOR A LESS CLEAR CUT PROPOSAL.

4. FINANCIAL COMMUNITY REACTION IS DERISORY, CONSIDERING THOSE RESPONSIBLE TO BE AMONG THE LABOR PARTY'S LUNATIC FRINGE. THE FINANCIAL TIMES REPORTS THAT "EVEN WITH LABOR'S NATIONAL EXECUTIVE COUNCIL, THERE HAVE BEEN MORE THAN USUAL DOUBTS EXPRESSED ABOUT THE QUALITY OF THOUGHT WHICH UNDERLINED THE DOCUMENT..." AND REMARKS THAT THE PROPOSALS ARE "MILES FROM THE STATUTE BOOK." IN A REASONED EDITORIAL, THE FT COMMENTS OBJECTIVELY THAT BANK NATIONALIZATION IS NOT THE ANSWER TO THE COUNTRY'S FINANCIAL PROBLEMS, WHICH INCLUDE INFLATION, HIGH GOVERNMENT BORROWING, AND LOW RETURN ON INVESTMENT. OTHER RESPONSIBLE PRESS TAKE A SIMILAR LINE, A TIMES EDITORIAL ENTITLED, "NOT ONLY ANOTHER FOLLY, BUT ALSO THE DEATH OF FREEDOM." THE TIMES CALLED IT A GLIB DOCUMENTATION OF FALSE ARGUMENTS, WHICH WOULD LEAD TO DISASTER AND THE CORPORATE STATE. AN OPPOSITION SPOKESMAN CALLED THE PROPOSALS "A BLUEPRINT FOR BANKRUPTCY."

5. COMMENT: THE PROPOSALS STAND LITTLE CHANCE OF
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BEING ENACTED INTO LAW. THEY WILL EMBARRASS THE MODERATES IN THE LABOR PARTY. THEY HAVE INFURIATED THE FINANCIAL COMMUNITY AND CREATED EVEN MORE DISTRUST OF LABOR PARTY MOTIVES. IN ADDITION, FOREIGNERS ALSO TOOK NOTE. THE PRESSURE ON THE POUND TODAY BEING CITED AS EXTERNAL REACTION TO THE WISDOM OF THE NATIONAL EXECUTIVE COMMITTEE'S PROPOSALS.

ARMSTRONG

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